



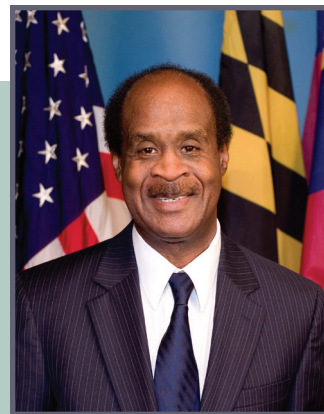
Montgomery County Department of Liquor Control

ANNUAL REPORT FISCAL YEAR 2014



MESSAGE FROM THE

Honorable Isiah Leggett, Montgomery County Executive



It is with pleasure that I present the 2014 Annual Report of Montgomery County's Department of Liquor Control (DLC).

Local liquor control has served Montgomery County well. The DLC contributes an average of \$30 million in annual profit to the County's general fund – helping us to fund schools, transportation, public safety, help for the vulnerable in our midst – and more.

The system helps to keep taxes lower – and keeps millions of dollars here in the County – working for us. Montgomery County has lower alcohol consumption and higher revenue for public purposes than other jurisdictions. There are not liquor stores on every corner. Our system makes it harder for underage individuals to purchase alcohol and provides more education for the public and for servers as well. It protects the public health.

DLC continues to work hard to improve its operations and to provide better service and better products. This past year has seen a major change for the department when it moved its office and warehouse operations to the Edison Park building on Route 28 in Rockville as part of my Smart Growth Initiative. This move was aimed not only at improving operations, but providing the department with much-needed, additional storage space.

Our DLC staff takes the responsibility of selling beverage alcohol products very seriously and continues to promote moderation and responsible behavior while providing a broad range of products at competitive prices. I remain extremely proud of the work performed by our staff as they provide a valuable service in an innovative and responsible manner.

A handwritten signature in black ink that reads "Isiah Leggett".

Isiah Leggett
Montgomery County Executive



Montgomery County, MD

Montgomery County is located adjacent to the nation's capital, Washington, D.C., and includes 497 square miles of land area and 10 square miles of lakes and streams. The County is the second largest jurisdiction in the region, accounting for eight percent of total population in the Washington, D.C. metro area.

People come to Montgomery County because of its renowned quality of life. Our residents value our urban centers, our agricultural communities, and our suburban neighborhoods.

Mission Statement

The mission of the Department of Liquor Control is to provide licensing, wholesale and retail sales of beverage alcohol products, enforcement and effective education and training programs, while promoting moderation and responsible behavior in all phases of distribution and consumption.

The department diligently promotes, enforces and obeys all laws and regulations governing beverage alcohol while generating revenue for the benefit of Montgomery County's General Fund.

Department Highlights:

\$0

No property, state or local taxes are used to support the department.

\$26.4 Million

Over 26 million dollars were transferred to the General Fund in 2014 to pay for important services.

\$266.6 Million

Over 266 million dollars were transferred to the General Fund in the last 10 years.

Organizational Chart



Director
George F. Griffin



Chief of Administration
Sunil Pandya

Administration (budget, HR, facilities)

Finance (A/P, A/R, pricing, financial reporting)

Information Technology (wholesale, retail, LRE and financial)



Chief of Licensure, Regulation and Education
Kathie Durbin

Licensure and Staffing for the Board of License Commissioners

Regulation (alcohol and tobacco inspections)

Education, Training, Development of Community Alliances



Chief of Operations
Gus Montes de Oca

Purchasing and Customer Service

Wholesale Operations (sales, warehousing and delivery)

Retail Operations (sales, promotions and marketing)

MESSAGE FROM THE DIRECTOR



This past year has been an active and important time for the Montgomery County Department of Liquor Control. Much was accomplished in several key areas: operational, administrative and legislative/regulatory. Some of the events of this last year have also created the opportunity to consider potential changes to the structural framework of the DLC, our operations, and our mission.

From a financial standpoint, the fiscal year ending on June 30, 2014, was another in a string of successes. DLC total sales were \$266.6 million. This represents growth over the previous year of 3.79%. (That total sales figure only represents revenue directly generated through operations; Montgomery County does not collect any excise, sales or other taxes on alcohol.) Our Montgomery County DLC-operated retail liquor & wine stores rang up sales \$127,205,563 – an annual increase of 3.9%. Our warehouse/wholesale sales amounted to

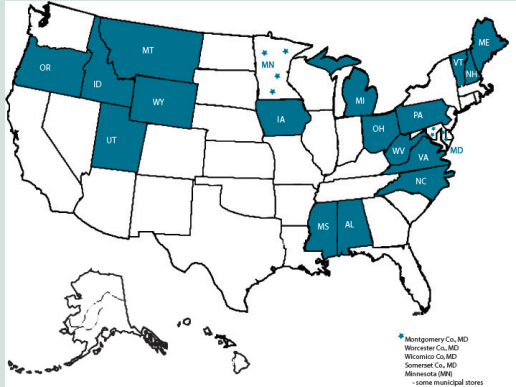
\$139,399,163. These sales to licensees (both on- and off-premise) were up nearly 3.7% over last year. It is gratifying to see this growth in the licensee business, led by a resurgent on-premise sector. Our community for the first time now has well over 1,000 licensed, privately owned and operated businesses, and this increased number of licensees is a directly due to growth in the restaurant sector. It is also interesting to note that the growth in our wholesale business was led by the strong performance of beer sales. After years of stagnant growth in the beer sector, our wholesale beer business grew by 5.1% -- fueled by the continuing robust interest in craft beers and micro-brews. Much of this specialty beer growth is driven by our on-premise sector, which is expected to be sustained into the near future.

It was also a busy year for us on the legislative & regulatory front. A few years ago, the Montgomery County Department of Liquor Control launched a community discussion about the future of our local nighttime economy and explored strategies for incorporating responsible hospitality practices within a vibrant and evolving social market. In 2012, we won a National Association of Counties Award for our “Nighttime Economy Forum” program. Last year, building on this theme, our County Executive created a “Nighttime Economy Task Force” to develop specific recommendations for facilitating responsible growth in this area. Several legislative initiatives resulted from the work of the task force, and DLC was actively involved in drafting and promoting these changes. The laws adopted by the Maryland General Assembly took effect on July 1st, and include: longer hours of operation for some licensees; new license categories; modified residency requirements for license applicants; the ability of salons and other non-traditional licensed retailers to serve alcohol; and, increased flexibility and expanded self-distribution rights for local micro-breweries and wineries. This year also promises to be particularly active with additional legislative initiatives. The work of the task force also predictably stimulated conversations regarding the desirability and expectations of operating a control system in Montgomery County. This public discussion, led by political leaders and industry interests, will continue in earnest in the coming year.

IN FY2014, This year DLC also continued to be engaged in several major infra-structure projects. Last July, right at the beginning of our fiscal year, we completed the relocation of our offices and warehouse operations into a new, modern facility. Our new home provides significantly more space and is completely climate-controlled. We performed this major relocation “in-house” with our own employees and equipment – and never missed a delivery day in the process. We opened two new stores – Clarksburg and Seneca Meadows - to serve the rapidly growing Clarksburg and Germantown areas. We also have made significant progress in developing, building and testing our much-anticipated Oracle ERP system, which will go live in early 2015. This project has demanded a tremendous level of dedicated resources – both financial and staffing. Once operational, this system should dramatically improve many of our business processes and operational practices.

George Griffin, Director
Montgomery County Department of Liquor Control

Spotlight: Control Jurisdiction Advantage



Members of the National Alcohol Beverage Control Association

Alcohol is a very special and sometimes controversial commercial product that deserves particular care. With the repeal of national prohibition in 1933, the method of beverage alcohol regulation fell to the citizens who decided by state, and sometimes by jurisdiction, how they could balance rights and responsibilities to best serve the community interest. For the individual who chose to drink responsibly, provision had to be made for the legal sale of beverage alcohol while, at the same time, the substantial social risks and economic costs of alcohol abuse had to be considered.

While a number of citizens chose to resume the legal sale of alcohol through licensed private sellers, 17 states and several local jurisdictions opted for a different course - control jurisdiction, where economic incentives for maximum sales were replaced with policies supporting moderate consumption. Seven decades later, jurisdictions continue to use the control method, and such durability suggests that the wisdom of this method is sound.

Montgomery County is proud to be one of the control jurisdictions and believes that it has successfully achieved the delicate balance of...

- Providing high-quality products and services to customers;
- Improving the overall safety of communities through education, regulation and enforcement; and
- Generating revenue for transfer to the General Fund to pay for important resident services.

What are the benefits of control systems?

First and foremost, alcohol regulatory systems and its individual regulations protect public health and safety. Excessive drinking usually causes harm to the user and innocent bystanders. For this reason, alcohol, being a unique product, should be controlled.

Control systems keep prices balanced, inhibits aggressive sales practices, and allows small and large business operators to be profitable. Further, these systems enforce many provisions that create significant amount of revenue for their governments, provides ample funding for programs (including seller/server training) that other systems cannot match. Control states produce \$155.5% more revenue per capita on the products controlled than do license states. This revenue goes back to the communities the control systems serve. Communities apply the revenue when it's needed. In summary, control systems encourage drinking alcohol moderately by hindering excessive use. They also generate revenue for the respective state and its residents.

28 percent

Today, 28 percent of the total U.S. population operates under the control mode.

Revenue Generated

The Control Systems Generate 102% MORE Per Gallon Revenue Than License States.

Control States: \$22.18 per gallon (spirits)

License States: \$10.53 per gallon (spirits)

Social Costs Reduced

The Control Systems Consume 15.8% LESS Distilled Spirits Than License States.

Control States: 1.6 gallons per capita (spirits)

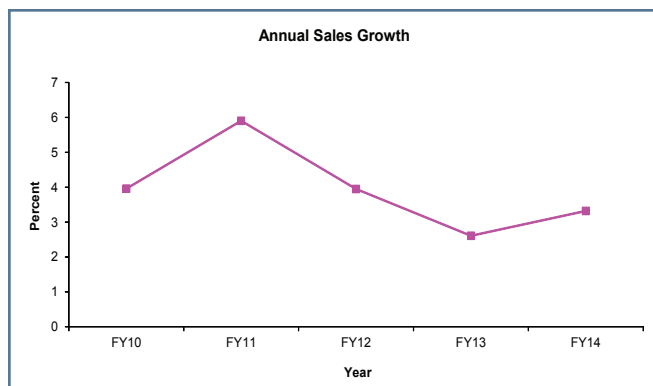
License States: 1.9 gallons per capita (spirits)

Lives Saved

The Control Systems Experience 9.3% LESS Under 21 Impaired Driving Deaths Than License States.

Results: Systematic Planning and Review

The department provides a wide selection of beverage alcohol products at competitive prices to shoppers in Montgomery County while promoting moderation and responsible consumption of the beverage alcohol products offered for sale. To gauge our success, the department monitors several headline measures:



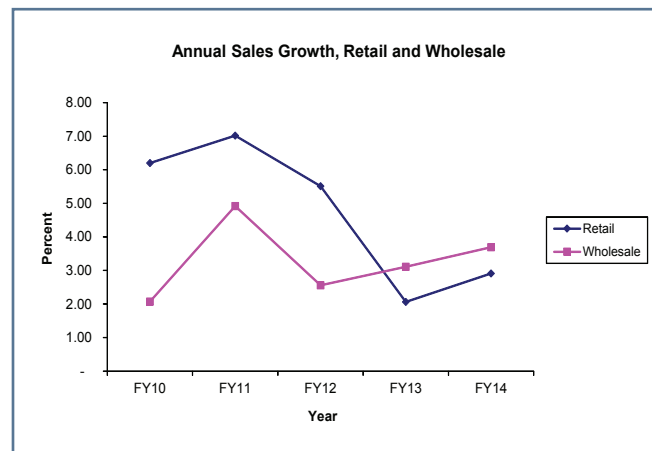
Annual Growth Sale

Contributing factors to meeting growth targets are the high level of customer satisfaction in retail stores and wholesale delivery operations, while restricting factors include an overall national trend that point to flattening consumption, tight economic restraints, and our limited advertising strategy that reflects the County's role in this business operation.



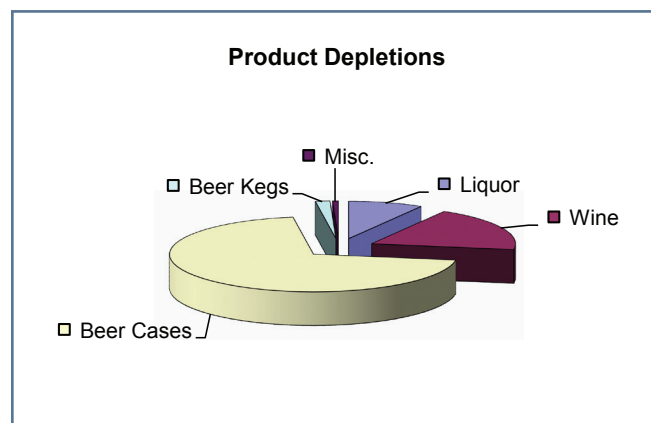
Product Depletions

| | |
|--------------------|-----------|
| Beer-Case | 3,741,837 |
| Wine-Case | 1,017,983 |
| Liquor-Case | 448,905 |
| Beer-Keg | 86,785 |
| Miscellaneous-Case | 34,575 |



Cost of Goods Sold to Sales

Cost of goods sold to sales is a measure of the gross profit margin. Our goal is to maintain a gross profit margin of twenty-eight percent across all segments. Contributing factors are sound management of product selection, tight inventory control and competitive pricing; while restricting factors include the growing interest in more modestly priced items, in-house cost escalations such as funding negotiated compensatory expenses, and other increasing costs such as retail store leases and utility costs, which are rising well above any increase in sales.

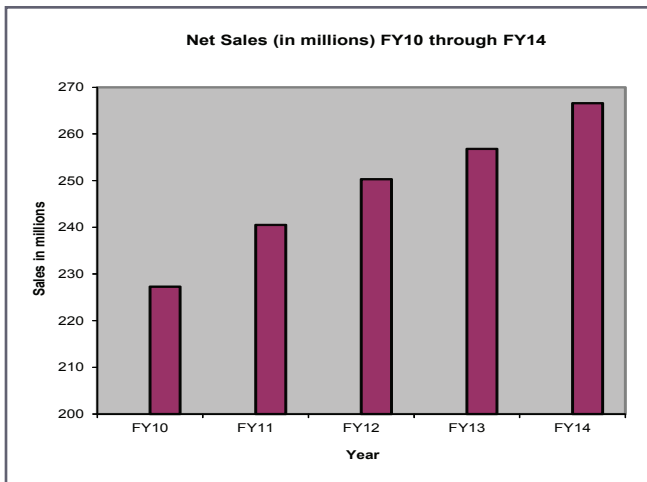


Results: Financial Information

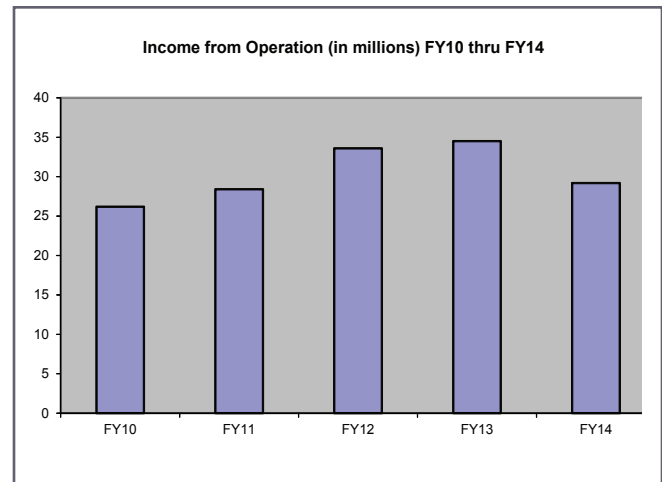
In the past 10 years, the department has made a cumulative contribution of over \$266 million (\$266,604,426) to the General Fund to help pay for important resident services such as education, infrastructure and police and fire services.

Contributing factors are a high level of customer service in both wholesale and retail; operations competitive product promotions; and availability to customers for special assistance in product location, training and guidance. Restricting factors include the overall national trend that points to flattening consumption; the economy; and the department's limited advertising strategy, which reflects the County's role in this business operation.

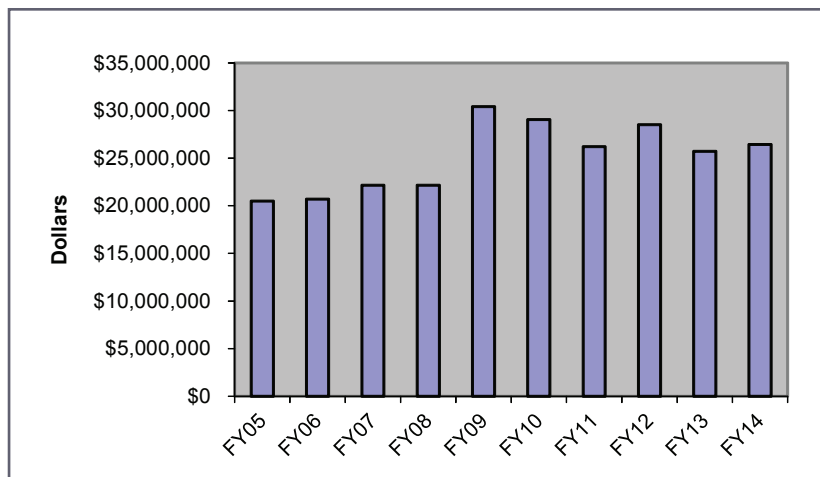
Results of Operation



Liquor Control's sales from continuing operations in FY 2014 were \$266.6 million



Liquor Control's income in FY 2014 was \$29.24 million



Liquor Control's transfer to the General Fund in FY 2014 was \$26,440,830

Results: Financial Information

Sales in Total and by Division, FY 2005-2014

| Fiscal Year | Total Sales (\$) | % Change | Retail Sales (\$) | % | Warehouse Sales (\$) | % Change | Warehouse Beer Sales (\$) | % Change | Warehouse Liquor/Wine Sales (\$) | % Change |
|-------------|------------------|----------|-------------------|------|----------------------|----------|---------------------------|----------|----------------------------------|----------|
| 2014 | 266,604,429 | 3.79 | 127,205,263 | 3.89 | 139,399,163 | 3.69 | 81,424,564 | 5.10 | 57,974,599 | 1.78 |
| 2013 | 256,880,993 | 2.61 | 122,447,676 | 2.06 | 134,433,317 | 3.11 | 77,470,324 | -0.18 | 56,962,993 | 7.96 |
| 2012 | 250,350,747 | 3.95 | 119,975,750 | 5.51 | 130,374,997 | 2.56 | 77,613,273 | 2.67 | 52,761,724 | 2.39 |
| 2011 | 240,832,404 | 5.90 | 113,709,823 | 7.02 | 127,122,581 | 4.92 | 75,592,489 | 5.11 | 51,530,092 | 4.64 |
| 2010 | 227,408,026 | 3.96 | 106,247,721 | 6.20 | 121,160,305 | 2.07 | 71,917,442 | 1.80 | 49,242,883 | 2.45 |
| 2009 | 218,750,580 | 3.23 | 100,041,953 | 4.85 | 118,708,597 | 1.90 | 70,643,269 | 1.94 | 48,065,328 | 1.84 |
| 2008 | 211,914,002 | 5.05 | 95,416,786 | 6.18 | 116,497,216 | 4.14 | 69,301,376 | 4.76 | 47,195,840 | 3.26 |
| 2007 | 201,721,589 | 5.43 | 89,859,669 | 7.45 | 111,861,920 | 3.86 | 66,154,446 | 2.17 | 45,707,474 | 6.41 |
| 2006 | 191,333,415 | 7.54 | 83,628,976 | 8.86 | 107,704,439 | 6.55 | 64,752,051 | 5.99 | 42,952,388 | 7.39 |
| 2005 | 177,911,175 | 5.79 | 76,823,377 | 8.16 | 101,087,798 | 4.06 | 61,089,995 | 2.62 | 39,997,803 | 6.33 |



Top 10 Spirit Brands

1. Smirnoff
2. Bacardi
3. Jack Daniels
4. Grey Goose
5. Absolut
6. Aristocrat
7. Captain Morgan's
8. Johnnie Walker
9. Gilbey's
10. Burnett's

Top 10 Wine Brands

1. Barefoot
2. Sutter Home
3. Yellow Tail
4. Woodbridge
5. Beringer
6. Franzia
7. Concho y Toro
8. Carlo Rossi
9. Lindeman's
10. Kendall Jackson

Top 10 Beer Brands

- | | |
|--------------------|---------------------|
| 1. Corona | 6. Coors Light |
| 2. Heineken | 7. Budweiser |
| 3. Miller Lite | 8. Milwaukee's Best |
| 4. Bud Light | 9. Yuengling |
| 5. Modelo Especial | 10. Sam Adams |

Results: Financial Information

General Fund Transfers

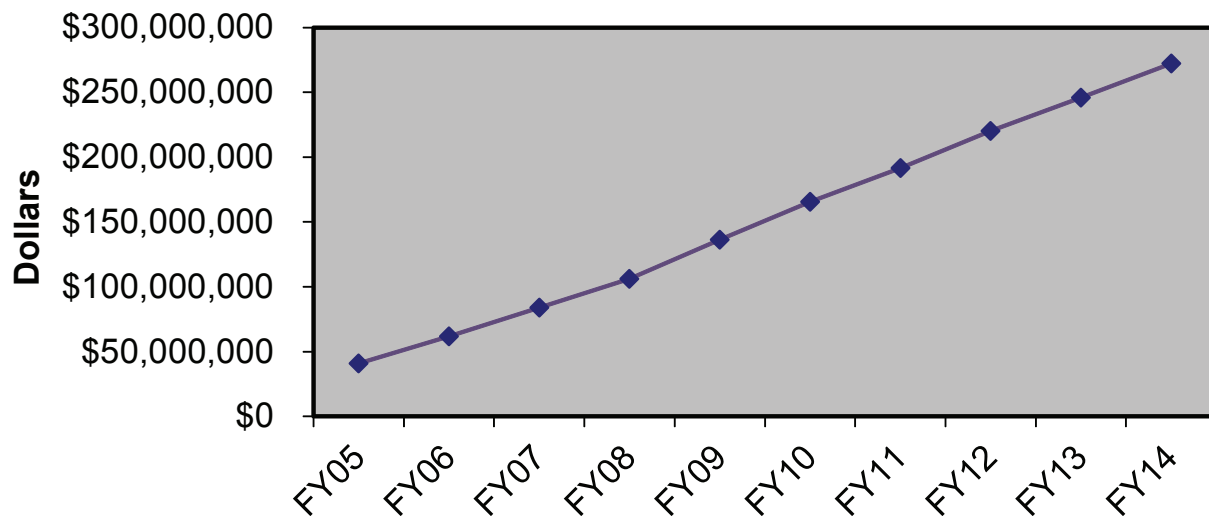
| Fiscal Year | Transfer | Cumulative Transfer |
|-------------|--------------|---------------------|
| 2014 | \$26,440,830 | \$272,354,145 |
| 2013 | \$25,729,463 | \$245,913,315 |
| 2012 | \$28,503,717 | \$220,183,852 |
| 2011 | \$26,206,170 | \$191,680,135 |
| 2010 | \$29,043,280 | \$165,473,965 |
| 2009 | \$30,410,060 | \$136,430,685 |
| 2008 | \$22,168,275 | \$106,020,625 |
| 2007 | \$22,149,050 | \$83,852,350 |
| 2006 | \$20,698,760 | \$61,703,300 |
| 2005 | \$20,503,510 | \$41,004,540 |

After paying all expenses and retaining a small amount of operating capital, Liquor Control transfers profits to the General Fund to pay for important county services. In Fiscal Year 2014, Liquor Control transferred \$26,440,830; the cumulative contribution in the last 10 years amounted to \$272,354,145.

\$272.35 Million

Liquor Control contributed over \$272.35 million to the General Fund in the last 10 years.

Cumulative General Fund Transfers FY2005 - FY2014



Spotlight: Licensure, Regulation and Education (LRE)

Division Overview

The Montgomery County Department of Liquor Control (DLC), as a “control jurisdiction” facilitates the wholesale distribution of beer, wine and spirits to approximately 1000 licensed establishments in the County. Along with the sale and distribution of a controlled substance comes a responsibility to educate and support the establishments served to ensure the safety of Montgomery County residents and the vitality of licensed businesses. The Division of Licensure, Regulation and Education (LRE) is one the three divisions within the DLC. Within this division there are three offices that work closely together, the Licensure Office, the Regulation Office and the Community Outreach/Education Office.



Kathie Durbin
Division Chief, Licensure,
Regulation and Education

Licensure Office

The Licensure Office processes alcoholic beverage license applications (new, transfer, one-day, renewals) in compliance with Article 2B of Maryland state law and the Rules and Regulations of the Board of License Commissioners (BLC). Licensure staff assists applicants throughout the application process from initial inquiry through license issuance and beyond, and provides staff support to the BLC. The Licensure Office is also involved in issuing violation letters, collecting fines, and scheduling show-cause hearings before the BLC.



Spotlight: On Customer Service & Collaboration

Alcohol Law Education and Regulatory Training

The LRE team at Liquor Control developed and provided a free-of-charge ALERT (Alcohol Law Education and Regulatory Training) program in English and Spanish. Designed to educate servers, sellers, management and owners of licensed County businesses in alcohol beverage regulatory compliance, the training program is offered twice a month to all County businesses (or potential businesses). This program has been recognized as a valuable resource to the business community, and is being mandated by the Board of License Commissioners and by District Court Judges hearing cases of individuals cited with alcohol violations. In Fiscal Year 2014, Over 800 individuals were trained in ALERT by the LRE team in both english and spanish.



Social Media

In Fiscal Year 2014, DLC stepped up efforts on social media in an effort to increase and enhance the sharing of information related to DLC. Facebook and Twitter are the preferred communication for personal use and has now become a main communication outlet for business (government, private companies, news, sports, etc.). The department also has added Pinterest and Instagram to its social media efforts.



'How to Apply' Brochure

The "How to Apply for a New or Transfer Annual Alcoholic Beverage License in Montgomery County, Maryland" brochure is available on the department's website or in hard copy from the Licensing Office. The brochure consolidates information that helps applicants for new or transfer annual licenses as they go through the application process.



Collaborating with Others

The Division of Licensure, Regulation and Education hosted national and statewide forums, spoke at national conferences, and organized community meetings in fiscal year 2014. Some of the events/conferences included the 12th Annual Responsible Retailing Forum National Meeting, Maryland Alcohol Licensing Association (MALA) Conference, Sociable City Leadership Summit, National Alcohol Beverage Control Association (NABCA) Administrators Conference, Safety Alliance Network Meetings, and the Maryland Statewide Alcohol Beverage Forum.

In an effort to help prevent drunk driving in Montgomery County, Montgomery County Department of Liquor Control (DLC) partnered with Brown-Forman, one of the largest American-owned spirits and wine companies and Reliable-Churchill, a Maryland distributor of wine and spirits, and a



designated driver program called "Be My Designated Driver," (BeMyDD), to encourage people to plan their night out and ensure a safe ride home. The BeMyDD program is an affordable designated driver service offering an alternative transportation solution.

Spotlight: On Safety

Montgomery County Is Keeping it SAFE

Fiscal Year 2014

Alcohol and Tobacco Compliance Checks

Alcohol Regulation

Recognizing that alcohol licensed businesses are the first line of defense in reducing the availability of alcohol to youth under 21 years of age, and/or intoxicated individuals; and to maintain keg registration a comprehensive compliance, DLC developed an effective compliance check program. A compliance check involves youth under the age of 20, using their own vertical ID, who attempt to purchase alcohol at a licensed establishment or through room service at a hotel or motel. Alcohol Inspectors and Police conduct compliance checks in tandem delivering both an administrative violation against the liquor licensee and a criminal citation to the individual seller/server for failed compliance.

Protocol- Maintaining a consistent protocol is the basis of a successful compliance check program. All underage volunteers are checked to ensure the only belongings on their person at the time of an attempted purchase is their valid ID, a cell phone for safety and buy money funded by the License, Regulation and Education Division of the Department of Liquor Control. Age enhancements such as facial hair, provocative clothing, and sun glasses are unacceptable. UV's attend an extensive training that includes detailed protocol as well as role playing.



Tobacco Regulation

Annually, the Montgomery County Department of Liquor Control conducts tobacco compliance checks to reduce tobacco sales to minors under the age of 18; and to ensure product placement laws are followed. In Fiscal Year 2014, 200 inspections were conducted. Out of those 200, 32 locations sold tobacco products to the UV, 24 of those locations checked the UV's identification and still made the sale, with the remaining 8 locations not checking the UV's identification.

Compliance Checks for
Underage Alcohol Sales

| | |
|-----------------|-----|
| Number Checked | 400 |
| Number Sold | 77 |
| Compliance Rate | 81% |

Compliance Checks for
Underage Tobacco Sales

| | |
|-----------------|-----|
| Number Checked | 200 |
| Number Sold | 32 |
| Compliance Rate | 84% |

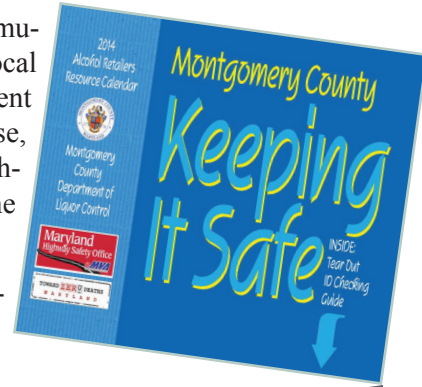
Compliance Team:

Montgomery County Department of Liquor Control, Montgomery County Board of License Commissioners, Montgomery County Police Department, Montgomery County Sheriff's Office, and the Montgomery County State's Attorney's Office.

Focus: On Community

Along with the sale and distribution of a controlled substance comes a responsibility to educate and support the establishments served. The Community Outreach/Education Office consults with and assesses establishments to keep businesses on track. Helping communities flourish through the promotion of alcohol laws, public awareness and responsible hospitality practices are priorities. Below is a partial listing of programs and efforts.

- The Community Outreach Office builds Business Alliances to support safe and vibrant communities. Business Alliances serve as a community based umbrella organization under which local business owners' work with State, County and City governments to customize and implement comprehensive prevention, education and enforcement programs addressing alcohol abuse, drinking in public and under 21 access. Alliance initiatives have a direct impact on the neighborhood's alcohol related social issues. Annually a Cops in Shops program provides overtime for enforcement to work with businesses helping them check IDs and prevent over service.
- Whenever possible, small grants and awards are applied for to support business alliance efforts including enforcement overtime (police and inspectors) as well as community education and training. Grant programs include funding for a Cops in Shops® Program, ID Checking Calendars for Retailers, hosting a free regional alcohol forum to bring together county Department of Liquor Control staff and enforcement from across the region to share information, network and discuss legislative agendas. This year's forum, "Innovative Solutions to Keeping Communities Safe" was held on September 10, 2014 and had over 100 attendees. Additionally, in kind materials from partners, such as ID books, age verification clocks, We Don't Serve Teens materials and other educational resources were distributed in monthly educational trainings.
- Throughout the year, the Outreach Office promotes the "Keeping it Safe" public education campaign. This campaign outreaches to both the hospitality industry and the community with educational materials. Point of sale materials and resources are available to all county licensees at no charge through the Outreach Office and include: ID Checking Calendars, decals, bulletins on new laws and regulation reminders and a responsible hospitality newsletter, Newslink. A social host responsibility campaign titled "Adult Host Responsibility" is promoted throughout the year through print materials and speaking engagements. Aiming at changing the culture, social host responsibility promotes parental communication and zero tolerance for underage alcohol use.
- The Outreach office has implemented an Alcohol Law Education Regulation Training (ALERT) for licensees. This free, twice monthly training assists people before they open a hospitality business to understand the legal and social responsibilities that accompany alcohol service and sales. Working to encourage the creation of safe venues for public gatherings and entertainment, all alcohol sellers and servers are encouraged to attend as well as license applicants. In FY14 over 800 sellers and servers were extensively trained.
- The Department of Liquor Control has developed a Safety Alliance Team to work with businesses licensed to sell/serve alcohol in the County. This informational network of regulatory and code compliance agencies, related organizations and licensees are concerned with the impact of dining, entertainment and special events on public health, safety and quality of life. The Safety Alliance shares resources to assist businesses in the licensing process and, once established, helps them become better informed about their roles and responsibilities. This is accomplished through the review and creation of licensing process flows and information dissemination. Additionally, the Alliance provides a mechanism to monitor complaints and violations of existing businesses. The meetings also serve as a networking opportunity.
- The Outreach Office also serve as a resource to licensees, the community and county agencies by staying active in community coalitions, boards and business league meetings.





Montgomery County Department of Liquor Control
201 Edison Park Drive
Gaithersburg, MD 20878
240-777-1900
www.montgomerycountymd.gov/dlc